

Collections Follow-Up Performance Audit

August 2011

DURHAM



1 8 6 9
CITY OF MEDICINE

101 City Hall Plaza
Durham, NC 27701
(919) 560-4213

Director of Audit Services
Germaine Brewington, MBA, CPA

Audit Manager
Sonal Patel, CPA, CIA

Senior Auditor
Eric E. Walker, CFE

Auditor
Ora G. Horton, CGAP



To: Thomas Bonfield
From: Germaine F. Brewington
Date: August 2, 2011
Re: **Collections Follow-Up Performance Audit (August 2011)**

The Department of Audit Services completed the report on the Collections Follow-Up Performance Audit dated August 2011. The purpose of the audit was to verify if the Department of Water Management and the Department of Finance implemented the recommendations proposed in the Collections Performance Audit dated February 2011.

This report presents the observations, results, and recommendations of the Collections Follow-Up Performance Audit. City management concur partially with the recommendations made. Management's response to the recommendations is included with the attached report.

The Department of Audit Services appreciates the contribution of time and other resources from employees of the Departments of Water Management and Finance in the completion of this audit.

TABLE OF CONTENTS

BACKGROUND INFORMATION	4
-------------------------------	----------

EXECUTIVE SUMMARY	5
--------------------------	----------

OBJECTIVE, SCOPE AND METHODOLOGY	6
---	----------

AUDIT RESULTS	7
----------------------	----------

RECOMMENDATIONS	10
------------------------	-----------

MANAGEMENT'S RESPONSE	11
------------------------------	-----------

Adequate controls over the collection of accounts receivable are an indispensable component of any government's overall financial management program. The Department of Audit Services performed a Collections Performance Audit in February 2011. The purpose of the audit was to assess the effectiveness of the collection procedures for delinquent fees. The February 2011 audit focused on the controls over collection of revenues from the following sources:

- Water fees;
- Sewer fees;
- Storm water fees; and
- Solid waste fees (only solid waste fees charged to the water bill).

The audit concluded that overall, controls over collection of past due water and sewer fees need to be strengthened. A lack of established procedures/policies and clearly defined roles and responsibilities over collection efforts between the Customer Billing Services (CBS) Division and the General Billing and Collection (GBC) Division led to ineffective controls relative to the monitoring and collection of non-active accounts and sewer only accounts. In addition, overall monitoring of past due accounts was not sufficient to identify areas where collection efforts were lagging.

The audit proposed six recommendations to address these areas of concern.

Purpose

The purpose of the audit was to verify if the Department of Water Management and the Department of Finance implemented the recommendations proposed in the Collections Performance Audit dated February 2011.

We conducted this performance audit in accordance with generally accepted governmental auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

The Collections Performance Audit dated February 2011 proposed six recommendations to management. The status of the recommendations is:

- One recommendation was implemented; and
- Five recommendations were partially implemented.

Objective

The objective of the audit was to verify if:

- The Department of Water Management and the Department of Finance implemented the proposed recommendations.

Scope

The scope of the audit included examining the Department of Water Management's and Department of Finance's current controls as they relate to the proposed recommendations of the Collections Performance Audit dated February 2011.

Methodology

To accomplish the objective of the audit, staff performed the following:

- Interviewed various City personnel responsible for implementing the proposed recommendations; and
- Obtained and reviewed policies, procedures, and memorandum of understanding between the Departments of Water Management and Finance.

During the audit, staff also maintained awareness to the potential existence of fraud.

AUDIT RESULTS

The recommendations in the Collections Performance Audit dated February 2011 and the accompanying status of each recommendation follow.

Recommendation 1

The Department of Water Management in conjunction with the Department of Finance should either establish or revise written procedures for collection of delinquent accounts. The procedures should:

- Outline collection procedures for active and non-active residential and non-residential accounts, and sewer only accounts; and
- Clearly outline the responsibility of the General Billing and Collections (GBC) Division versus the Customer Billing Services (CBS) Division over collections. For instance, specify the responsible party for collection of all non-active accounts and sewer only accounts; and
- Clearly establish the period when delinquent accounts reach eligibility for referral to the GBC Division; and
- Establish a specific plan to address collection of non-active residential accounts. It should contain steps beyond the setoff program to ensure all reasonable efforts are utilized to collect the receivable.

Status: Partially Implemented

The Department of Water Management and the Department of Finance have taken the following steps to implement the above recommendation:

- *They created a memorandum of understanding between the Department of Water Management and the Department of Finance that clarifies the responsibilities of each department over collection of fees;*
- *They developed a Non-Active Utility Collection Policy to address the collection of non-active utility accounts in a systematic manner; and*
- *The GBC Division of the Department of Finance has established a written protocol to follow prior to sending accounts to the Collection Agency.*

The Department of Water Management is currently in the process of developing a protocol for delinquent sewer only accounts.

Recommendation 2

The Department of Water Management should strengthen monitoring of delinquent accounts by:

- Tracking data and trends on delinquent accounts over time;
- Obtaining aging reports by account type to monitor collection activity; and

- Analyzing the information and taking specific steps to determine the cause of the delinquency. For instance, once an active account is 61 days delinquent, staff should follow up to determine why it is not paid or cutoff.

Status: Partially Implemented

The Department of Water Management hired a Utility Finance Manager. Her responsibilities include compiling, analyzing and tracking aged receivables. Under the direction of the Utility Finance Manager, staff have compiled the prior thirteen months of aged receivables and graphed the amount and percentage of receivable dollars and number of accounts. These graphs facilitate the tracking of trends in both amounts and numbers of accounts to show progress with both large and small delinquent accounts.

Recommendation 3

The Department of Water Management should develop payment plan guidelines. The guidelines should at least include:

- Eligibility criteria;
- Maximum number of payment plan arrangements that can be received on an account;
- Procedures to ensure customers adhere to payment plan arrangements;
- Documented evidence of monitoring; and
- Supervisory approval for exceptions to guidelines.

Status: Partially Implemented

The CBS Division of the Department of Water Management has developed payment plan guidelines. The review of the guidelines revealed that they did not address the following:

- *Eligibility for financial hardship; and*
- *Maximum number of payment plan arrangements that can be received on an account within a calendar year.*

Recommendation 4

The Department of Finance should retain the services of collection agencies to facilitate collection of past due accounts. The Water Management and Finance Departments should establish and approve guidelines to govern the roles of the collection agency and City employees involved in the process. All processes should be clearly defined.

Status: Implemented

City Council approved a contract with Professional Recovery Consultants, Inc. on May 16, 2011 to provide collection services.

Recommendation 5

The Department of Water Management should examine past due balances that are delinquent 3 years or more and determine if they are collectible. The Department should write off any uncollectible debt.

Status: Partially Implemented

The Department of Water Management has contacted the Department of Technology Solutions to produce an aged billing report to stratify receivables and identify those over 3 years. In addition, they have requested a report to cross-reference customer account numbers for active and inactive accounts with balances to allow transfer of delinquent balances to active accounts. After this review, identified accounts over 3 years will be written off in accordance with the Write-off of Uncollectible Accounts policy written by the Department of Finance (currently pending approval).

Recommendation 6

The Department of Finance should establish a write off policy. The write off policy should clarify who is responsible for determining accounts for write off and the eligibility criteria necessary for account write off.

Status: Partially Implemented

The Department of Finance has a draft Write-Off of Uncollectible Accounts policy for Uncollectible debts, currently pending approval.

Recommendation 1

The Department of Water Management should continue to develop and finalize the protocol for delinquent sewer only accounts.

Recommendation 2

The Department of Water Management's Utility Finance Manager should ensure monitoring of delinquent accounts by:

- Tracking data and trends on delinquent accounts over time;
- Obtaining aging reports by account type to monitor collection activity; and
- Analyzing the information and taking specific steps to determine the cause of delinquency.

Recommendation 3

The Department of Water Management should revise the payment plan guidelines to include the following:

- Eligibility criteria for determining financial hardship; and
- Maximum number of payment plan arrangements that can be received on an account within a calendar year.

Recommendation 4

The Department of Water Management should continue efforts to examine past due balances that are delinquent 3 years or more and determine if they are collectible. The Department should write off any uncollectible debt.

Recommendation 5

The Department of Finance should continue efforts necessary to receive approval of the Write-Off of Uncollectible Accounts Policy.

MANAGEMENT'S RESPONSE

To: Germaine F. Brewington, Director of Audit Services
From: Donald F. Greeley, Director, Department of Water Management
David Boyd, Director, Finance Department
Martha Zeigler, Utility Finance Manager, Department of Water Management
Date: August 17, 2011
Subject: Management's Response
Collections Follow-Up Performance Audit (August 2011)

The following is the management's response to the Collections Follow-up Performance Audit dated July 2011.

Recommendation 1:

The Department of Water Management should continue to develop and finalize the protocol for delinquent sewer only accounts.

Management's Response:

We concur. Management is in full agreement with the recommendation.

At the August 15th meeting, Council approved the policy and associated fees for the reconnection process. Operational staff have standard procedures in place. The Utility Finance Manager will monitor the process through to completion.

Target date will be the second quarter of FY 11-12.

Recommendation 2:

The Department of Water Management's Utility Finance Manager should ensure monitoring of delinquent accounts by:

- Tracking data and trends on delinquent accounts over time;
- Obtaining aging reports by account type to monitor collection activity; and
- Analyzing the information and taking specific steps to determine the cause of delinquency.

Management's Response:

We concur. Management is in full agreement with the recommendation.

Under the direction of the Utility Finance Manager (UFM), staff has compiled the prior thirteen months of aged receivables and graphed the amount and percentage of receivable dollars and number of accounts. These four graphs, (attached) allow tracking of trends in both amounts and numbers of accounts to show progress with both large and small delinquent accounts. The UFM has also requested Technology Solutions staff to develop a report that lists all active accounts with delinquent balances over 60 days and any associated coding for bankruptcy or payment arrangements to identify those with these specific causes of delinquency. Other accounts which are active will be verified as shut off. Any other accounts which may need further examination will be referred to GBC. Estimated time to receive this report from TS is September 2011.

The Utility Finance Manager or designee will continue to track trends, monitor collection reports, and take appropriate action on an ongoing basis.

Recommendation 3:

The Department of Water Management should revise the payment plan guidelines to include the following:

- Eligibility criteria for determining financial hardship; and
- Maximum number of payment plan arrangement that can be received on an account within a calendar year.

Management's Response:

Management is in partial agreement with the recommendation. Management agrees that eligibility for financial hardship and the maximum number of payment plan arrangements within a year should be addressed, but management does not agree that there needs to be a certain limit for the number of payment plans nor that Management is responsible for determining eligibility criteria.

A revised draft of "Payment Arrangement Guidelines" is attached which clarifies the definition of "financial hardship" and that eligibility is to be decided by the Department of Social Services, not the Department of Water Management. The draft also specifies that there is no maximum of plans which may be granted in a particular year.

The final guidelines will be approved by Management and in place by September 2011.

Recommendation 4:

The Department of Water Management should continue efforts to examine past due balances that are delinquent 3 years or more and determine if they are collectible. The Department should write off any uncollectible debt.

Management's Response:

We concur. Management is in full agreement with the recommendation.

Staff has received from Technology Solutions an aged report of all delinquent balances to identify past due balances in excess of three years. Technology Solutions, at WM staff request, has also supplied a report that matches customer numbers of active and delinquent accounts so that delinquent balances can be transferred to active accounts for immediate collection and/or payment arrangements. Another report has been developed that matches credit balances to see if misapplied payments are showing up as a credit balance on one account with a delinquent amount on another account with the same customer name. A final attempt will be made to manually review remaining delinquent accounts to see if a name match can be made to an active or inactive account with a credit balance where a different customer number has inadvertently been assigned. The Utility Finance Manager will need to locate additional resources for this process to be completed in a timely manner. Once Department of Water Management has completed these steps and removed/corrected any discrepancies identified, the information will be turned over to GBC for collection. Once GBC notifies Water Management staff that an account is uncollectible, staff will write-off accounts in accordance with the policy established by the Finance Department, once adopted. CBS and Collections Divisions have agreed upon procedures to coordinate communicate submission of accounts for write-off, and when to actually remove amounts from the accounting records after official approval.

The Utility Finance Manager will oversee this process and start upon the finalization of the write-off policy in Recommendation #5. The Utility Finance Manager will also ensure that future write-offs will be made in accordance with this policy.

Recommendation 5:

The Department of Finance should continue efforts necessary to receive approval of the Write-Off of Uncollectible Accounts Policy.

Management's Response:

We concur. Management is in full agreement with the recommendation.

Finance Policy FP302.01, Write-Off of Uncollectible Accounts, was forwarded to the City Manager for final review on August 3, 2011. Upon completion of final review, the policy will be posted on the intranet for a review and comment period of fourteen business days. Comments received will be evaluated for inclusion in the policy, and the finalized policy will be forwarded to the City Manager for his signature.

The Finance Director, or his designee, will monitor the process through to completion.

Target completion date will be the first week in September.

DRAFT---Payment Arrangement Guidelines

Purpose: These procedures are established to assist in the collection of monies owed the City of Durham for water and sewer services by providing alternatives for customers who intend to make payments in good faith but are unable to do so in full by the bill due date.

Definitions:

- **Payment arrangement:** a mutual agreement between the customer and the City of Durham to defer cutting off water for delinquent payment based upon certain future payment(s). A payment arrangement includes a one-time short-term extension as well as periodic payments over several months
- **Payment extension:** When a customer is granted a certain amount of time past the due date to pay the amount due. An example might be if a bill is due on a Monday and the customer asks for an extension until Friday when he will receive a paycheck. This might also be granted for one in a series of installment payments.
- **Deferred payment arrangement:** Installment payments to allow a customer to repay a large amount over more than one month.
- **Water Financial Hardship:** The City of Durham allocates certain funds during the budgetary process for use in cases of financial hardship of eligible customers. The Durham County Department of Social Services is responsible for determining criteria and whether a customer qualifies.

Qualifications for a payment arrangement: any customer who asserts an inability to pay a bill on time may be considered for a payment arrangement. Any customer who claims to be unable to pay all or a portion of a bill within a time period acceptable to the City may go to the Department of Social Services to request assistance from Water Hardship funding. If the DSS determines this customer is eligible for financial assistance, the City will hold off cutting off the water until funds are transferred. Any payment extension over one month or which will involve multiple installments must be documented by completing a deferred payment form signed by appropriate personnel. Provided a customer honors the terms of the payment agreement, there is no limit to the number of agreements a customer may enter into during a calendar year.

Authority for making payment arrangements:

CBS staff may make payment arrangements as authorized below.

Position	Maximum Amount	Maximum Repayment Period
Utility Account Representative or Billing Specialist	\$ 1,000	4 Months 6 Months (with Supervisor Approval)
Customer Services Supervisor	\$ 5,000	6 Months
Billing Manager	\$10,000	1 Year
Utility Finance Manager	\$10,000+	Over 1 Year

Exceptions: A customer may request one additional extension on an original arrangement not to exceed two weeks or until an existing appointment with DSS to determine whether the customer qualifies for Water Hardship fund assistance. Any other exceptions to the above may be made on an individual basis under extenuating circumstances by the Utility Finance Manager, Assistant Director, or Director.

Noncompliance: Failure to keep the agreed upon arrangements for repayment of the delinquent amount and/or failure to pay all subsequent bills by the due date will result in disconnection of water service without notification on or after three days of the due date. The customer will be responsible for

payment of the entire amount due before water service is turned back on and will not be able to enter into another payment arrangement for the next six months.

Monitoring Compliance: Technology Services has been requested to prepare a report of all customers on payment plans with the date of the last payment which will be reviewed weekly for payment plans in arrears. In the interim, the Customer Services Supervisor will sample a minimum of 5 accounts per UAR for compliance, dating and initialing and keeping on file for one year. Any significant trend of noncompliance will be reported to the Billing Manager immediately for further remediation.